



## *Chp. 15: Labour market models*

### ✦ Overview

- ✦ Labour market models
  - Competitive & segmented lab. market models
- ✦ Economic impact: unions & collective barg.
- ✦ Labour market flexibility
  - Flexible firm model & flexibility typologies
  - Flexibility in New Zealand
  - Flexibility & productivity: the NZ 'example'
- ✦ Productivity: the continuous NZ 'problem'

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“An understanding of the labour market is fundamental to an understanding of employment relations.” (p. 423).

Labour market models: “these models are necessarily caricatures and their rudimentary and ‘black-and-white’ presentation can hide different nuances and perspectives. However, the dominance of one or the other of the models can have crucial implications for the development of public policy.” (p. 423).

Thus, the main areas of this chapter – labour market models, economic impact of unions and collective bargaining, labour market flexibility, productivity – have all featured strongly in the debates over employment relations changes in New Zealand in the last 25 years.



## *Labour market models*

- ✦ Two opposing models: competitive & segmented labour market models
- ✦ The competitive labour market model
  - ▣ Labour market is similar to other types of market: competitive forces reign supreme
    - Wage rates are price signals & they determine supply & demand
  - ▣ Key assumptions – see p. 426.

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The deregulation view of labour market regulation – see pp 76-80 – is clearly influenced by the competitive labour market model.

Besides the key assumptions below, low level of state intervention is also assumed.

Key assumptions:

- single labour market
- competition (amongst both employees and employers – that is, no collective action or monopolies)
- individual contribution is easily measured
- financial rewards is the only determinant (thus, job satisfaction, equity & fairness do not figure)
- no mobility barriers & marginal differences prompt moves
- labour markets are analogous to commodity markets



## *Competitive labour market model*

- ✦ Factors affecting labour demand
  - ✦ Marginal productivity, elasticity, demand for goods & services (derived demand)
    - New technology, service society & globalisation
- ✦ Factors affecting labour supply
  - ✦ Substitution & income effects
  - ✦ Long-term supply – see factors, p. 429
    - There have been significant changes to these factors in NZ, post 1984 (see also chp. 9)

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These factors are discussed in most textbooks on labour economics. You may consider consulting these texts.

There has been some discussion of elasticities in view of large scale restructuring and there appears to be a certain amount of ‘rigidity’ amongst employees as well as differences between national employment relations systems.

That the demand for labour is a derived demand has been highlighted by:

- the amount of new technology being introduced
- the move towards a ‘post-industrial society’ (with most new jobs being in service sectors and ‘knowledge industries’)
- globalisation effects: job losses or creations being influenced by financial transactions or multi-national companies relocating their production and services

Changes in overall rates of labour force participation illustrate how there are a complex mixture of demand and supply factors at play. Besides demand, supply is influenced by: employee preferences, transport and childcare facilities, education systems, welfare policies, immigration & demographics.



## *Segmented labour market model*

- ✦ Questions the 'market view' & the smooth transitions of the competitive model
  - ❖ Barriers: institutional, social, firm-specific
  - ❖ Dual labour market theory: primary & secondary labour markets (a theoretical simplification)
  - ❖ Internal labour markets
- ✦ Demand side > supply side
- ✦ Policies countering segmentation (pp 430-1)
  - ❖ These policies are mainly discussed in chp. 8

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This model suggests “that labour markets are characterised by institutional rigidities, social conventions, restrictive practices, and pay rates fixed on the basis of custom and social esteem.” (p. 430).

Dual labour market theory is a ‘black-&-white’ image of the labour market and the distinction between the primary and secondary labour markets should mainly be considered as a heuristic devise. The segmented labour market model allows for many segments.

I am unsure how much Marxist theory of class conflict is influencing the current segmented labour market model (see: “the analysis is influenced by the Marxist theory of class conflict. In this approach, internal labour markets are seen to be the result of attempts to prevent the development of class consciousness among workers and to allow employers to maintain control over the production process. (p. 431)).

“The essence of the labour market segmentation model lies in its emphasis on the attention that needs to be paid to the *demand* side rather than to the supply side of the labour market and to *social forces* creating labour market rigidities.” (p. 431).



## *Economic impact of unions*

- ✦ Rich empirical driven research agenda
- ✦ Lekachman: unions are 'theoretical nuisances' for economists
- ✦ 3 very different perspectives of unions
  - ▣ Rejection: unions as 'distorting' monopolies
  - ▣ Accommodation: adjusting market results
  - ▣ Advocacy: unions' positive contributions

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While unions may be 'theoretical nuisances', their actions have prompted a range of research projects – for a selection of topics, see p. 432.

While economists would like to establish general theories/'lessons', this is hampered by that the unions and collective bargaining are heavily influenced by historical developments & national regulatory approaches.

The 3 perspectives tend to focus on the organisational level. Thus, it overlooks the impact of national union behaviour – see pp. 280-288

**Rejection:** unions act as monopolies that raise their members' wages – really labour costs as it can involve: work efforts, strike activity, demarcation and decision-making procedures - with detrimental effect on productivity and investments.

**Accommodation:** there can be scope for unions to raise wages without any long-term effects for employment of its members.

**Advocacy:** shock effect & collective voice effect



## *Economic impact of unions II*

- ✦ Recent theoretical clash: rejection v/s advocacy (including accommodation)
- ✦ Economic impact depends on what type of unions & what actions they take
  - ✦ Few generalisations can be made
  - ✦ Analyses are mainly based on USA data
  - ✦ Countries with high union density can have high productivity & living standard levels

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In New Zealand debates, the theoretical clash has tended to be between the rejection (monopoly) and advocacy views. While the rejection view has tended to favour economic reasons the advocacy view has drawn more on equity and social reasons.

There are substantial differences between the way unions act in various countries and, even within a particular country, there are many different approaches. These approaches can also change over time. This may be the key lesson to be drawn from the discussion of unions and their strategies – see pp 345-348.

“These findings would suggest that very few black-and-white generalisations can be made about the impact of unions on a firm’s performance. It must also be acknowledged that there has been a considerable geographical bias since the majority of these studies have been conducted in North America and most of the remainder in the United Kingdom. These countries have very different employment relations systems to New Zealand’s and their industry and firm structures are totally different too.” (p. 437).

It is an interesting question – yet to be answered - to what degree unions have an influence on business and employment relations strategies.



## *Labour market flexibility*

- ✦ Problems with flexibility discussion
  - ▣ Normative, blur macro-micro effects, processes (choice) & overlooks 'who wins'
- ✦ Flexible firm – see fig. 15.4
  - ▣ Easy to understand & provides several illustrations of various types of flexibility
    - Key issue: is model prescriptive or descriptive?
    - How can various types of flexibility co-exist?

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Flexibility is a difficult concept as it is immediately understandable but it carries many meanings and can have different impacts.

It is normative since it is often assumed that flexibility is a 'good thing'.

While more flexibility at firm level may benefit the individual firm it could have different effects across the economy. There can also be a long- versus short-term issue (a bit like taking medicine versus drug dependency)

The really big issues at the moment are: (a) questions of choice and 'who wins' when it comes to employer and employee preferences; (b) is it possible to create win-win situations for both employer and employee (and for the economy as a whole).

Atkinson's flexible firm model can both be seen as prescriptive (this is the way to go) and a descriptive (this is what is happening). It can also be synthesis of the various perspectives on flexibility (this is what can possibly happen).

It is an important issue whether the use of one type of flexibility may be detrimental to achieving other types of flexibility. Employee reaction & employer strategy become crucial, as discussed on next slide.



## *Labour market flexibility II*

- ✦ Flexibility typologies – a growth industry
  - ▣ Why suddenly so popular?
    - Pressures to increase flexibility
    - Changes to 'traditional' employment patterns
  - ▣ What changes do typologies focus on?
- ✦ One typology & associated NZ trends
  - ▣ Simplification: varies by industry & firm
- ✦ Is more flexibility & equity possible?

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There have been many typologies which is a reaction to the popularity of the concept as well as many countries experiencing major changes to employment patterns. This has taken many forms: a rise in part-time & casual employment, fixed term employment, employing contractors. The issue of outsourcing of work and/or the management of employees has become popular in management literature (see Drucker 2001).

The typologies focus on changes to work & employment patterns and these patterns do not always align well with traditional labour market statistics. Thus, one can measure the shift from full- to part-time employees but it is more difficult to establish the degree of functional flexibility.

Whether one type of flexibility 'fits' with or is detrimental to other types of flexibility is heavily debated. For example: can you have a high degree of numerical flexibility and still be able to pursue functional flexibility? An answer to this question will have to take into account how the flexibility measures were implemented and how employees reacted to these changes. And this would again be influenced by national regulatory tradition, workplace culture and employment relations norms.

Can a 'win-win situation' be developed: more flexibility & equity simultaneously?





## *Flexibility & productivity*

- ✦ Economic performance => productivity  
=> increased flexibility (for employers)
- ✦ Basis of NZ reforms, esp. the ECA
  - ❖ Narrow view of productivity & unions' role
  - ❖ Expectation: detrimental union practices
  - ❖ Outcome: disappointing productivity levels overall, but many firms report prod. rises
    - Why this macro-micro difference?

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Worries considering economic performance led to a focus on productivity (in the 1960s) and then a focus on flexibility (from late 1970s).

There are many ways to increase productivity – both at national/sectoral & organisational level (see some of these ways on pp 447-8).

“The debates on productivity arrangements have tended to treat existing employment conditions and working practices as major blockages to higher productivity growth.” (p. 448). Likewise, with unions.

The issue of NZ labour productivity is a long-term one – associated with the relative decline in NZ living standards since the late 1950s.

The expectations were that the ECA would raise productivity levels. However, this has not been the case (although there are different estimations – p. 449).

There appears to be two explanations of the macro-micro difference: (1) survey information relied on managers' opinions and they may have confused productivity with profitability; (2) a few 'star' firms are not enough, especially if they employ a minor part of the workforce.



## *Flexibility & productivity II*

- ✦ NZ: employer-driven flexibility has not given rise to crucial lift in productivity
  - ❑ Insufficient workplace reform & rise in employment of low productivity workers
  - ❑ Lack of investment in infrastructure, training & development, high-tech org.
  - ❑ Lack of reform synergy & rise in compliance costs
  - ❑ Could it just be a matter of time-lag?

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This is a major issue – for other opinions see Economist 2001, Edlin 2001, Easton 2001, Dalziel 2001, *NZ Herald*, 25-1-2002, p. C2.

The limited workplace reform has also been a problem under the ERA (see pp 474-485). Employment growth can mask productivity issues: the stagnant real wages & cuts to overtime & penal rates may have facilitated a ‘cheap labour’ economic development (according to IMF research NZ has favoured labour- over capital-intensive approaches).

While there was some investment in training & development this was not enough to overcome skills shortages – see chp 9. The debates about the knowledge economy and ‘Infrastructure Auckland’ in the new millennium are indications of the problem surrounding infrastructure & high-tech investments.

The rise in compliance costs have been discussed elsewhere – see p. 84.

It is a major public policy issue: whether there has been a lack of reform synergy or the reform strategy was basically wrong or executed wrongly.

The shift to the ERA indicates the Labour-led government’s position: another policy direction was needed; it was not just a matter of time-lag.



## *ERA & productivity*

- ✦ Inclusive approach: Integration & 'productive employment relationships'
  - ✦ Unions: seen as part of the 'solution' instead of being the 'problem'
  - ✦ Supporting partnership approaches
  - ✦ Workplace Productivity Working Group
    - 'drivers' of productivity: often understood but there are barriers to overcome
    - Information campaign & workplace supports

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While the ERA was an attempt to improve productivity through a more inclusive approach it is crucial to stress that first, the ERA was just one part of a wider 'social democratic' approach to creating a high skill, high productivity economy (Haworth 2004) and second, there was a specific targeting of perceived factors hampering productivity in the 1990s (p. 451).

Union being part of the 'solution' clearly indicates an advocacy understanding of unions and their role. It is also associated with an emphasis on workplace partnership, more vocational training and industry development.

Workplace partnership approaches are discussed in chp. 16.

The Labour-led governments mainly emphasised 'soft' (persuasive, non-legislative) approaches to improving productivity levels. This included research projects, demonstration 'case studies', supporting workplace partnerships, facilitating industry approaches. However, the significant changes to statutory minima could be seen as an attempt to avoid a 'cheap labour', low productivity approach.



## *ERA & productivity II*

- ✦ Productivity growth has been low
  - ✦ Considering government efforts this may have been a surprise to many
- ✦ Explanatory factors vary
  - ✦ Economic growth has masked low productivity & have probably contributed
  - ✦ Tight labour market creates barriers
- ✦ What can be done to lift productivity?

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Considering the considerable effort by the Government, employers and unions to lift productivity, it is disappointing that productivity growth has stagnated (see figures 15.5 & 15.6).

There has been considerable discussion of why productivity growth has been so disappointing – explanatory factors have varied considerably – and, more importantly, it is a major public policy issue how to improve productivity in the coming decade. Particular NZ issues are: overseas ownership, prevalence of small and medium-size firms, ‘brain drain’.

While the productivity problem hasn’t been solved, there have been several important changes to NZ debate of possible future avenues (pp 454-5).